The State of Utah

Department of Natural Resources

Division of Oil, Gas & Mining

ROBERT L. MORGAN
Executive Director

LOWELL P. BRAXTON
Division Director

OLENE S. WALKER
Governor

GAYLE F. McKEACHNIE
Lieutenant Governor

Inspection Report

Representatives Present During the Inspection:	
OGM	Priscilla Burton Environmental Scientist III
Company	Vicky S. Miller Environmental Specialist
OGM	Priscilla Burton Environmental Scientist III

Permit Number:	C0070039
Inspection Type:	TECHNICAL
Inspection Date:	Thursday, July 15, 2004
Start Date/Time:	7/15/2004 8:30:00 AM
End Date/Time:	7/15/2004 3:00:00 PM
Last Inspection:	Wednesday, June 16, 2004

Inspector: Priscilla Burton, Environmental Scientist III

Weather: clear skies, sun, 75 - 85 F

InspectionID Report Number: 332

Accepted by: whedberg
8/8/2004

Permitee: **CANYON FUEL COMPANY LLC**
Operator: **CANYON FUEL COMPANY LLC**
Site: **DUGOUT CANYON MINE**
Address: **PO BOX 1029, WELLINGTON UT 84542**
County: **CARBON**
Permit Type: **PERMANENT COAL PROGRAM**
Permit Status: **ACTIVE**

Current Acreages

7,083.71	**Total Permitted**
51.11	**Total Disturbed**
	Phase I
	Phase II
	Phase III

Mineral Ownership

- [x] **Federal**
- [x] **State**
- [ ] **County**
- [x] **Fee**
- [ ] **Other**

Types of Operations

- [x] **Underground**
- [ ] **Surface**
- [ ] **Loadout**
- [ ] **Processing**
- [ ] **Reprocessing**

Report summary and status for pending enforcement actions, permit conditions, Divison Orders, and amendments:

The Division has reviewed four degassification well and exploration drilling amendments over the last year (Tasks 1273, 1642, 1834, 1916, 1943) . The wells are all located on the plateau above the Dugout Mine. The field visit was an opportunity to observe the methane degassification wells G-2 and G-3 developed in November 2003 and February 2004 (Task 1642); the locations of the proposed degas wells G-4, G-5, G-6 (Task 1943); and the site of exploration hole DUG 0204 (Task 1916).

Inspector's Signature Priscilla Burton **Date** Monday, July 19, 2004

Priscilla Burton, Environmental Scientist III
Inspector ID Number: 37

Note: This inspection report does not constitute an affidavit of compliance with the regulatory program of the Division of Oil, Gas and Mining.

REVIEW OF PERMIT, PERFORMANCE STANDARDS PERMIT CONDITION REQUIREMENTS

1. *Substantiate the elements on this inspection by checking the appropriate performance standard.*
   a. *For COMPLETE inspections provide narrative justification for any elements not fully inspected unless element is not appropriate to the site, in which case check Not Applicable.*
   b. *For PARTIAL inspections check only the elements evaluated.*
2. *Document any noncompliance situation by reference the NOV issued at the appropriate performance standard listed below.*
3. *Reference any narratives written in conjunction with this inspection at the appropriate performace standard listed below.*
4. *Provide a brief status report for all pending enforcement actions, permit conditions, Divison Orders, and amendments.*

	Evaluated	Not Applicable	Comment	Enforcement
1. Permits, Change, Transfer, Renewal, Sale	☐	☐	☑	☐
2. Signs and Markers	☐	☐	☐	☐
3. Topsoil	☐	☐	☐	☐
4.a Hydrologic Balance: Diversions	☐	☐	☐	☐
4.b Hydrologic Balance: Sediment Ponds and Impoundments	☐	☐	☐	☐
4.c Hydrologic Balance: Other Sediment Control Measures	☐	☐	☐	☐
4.d Hydrologic Balance: Water Monitoring	☐	☐	☐	☐
4.e Hydrologic Balance: Effluent Limitations	☐	☐	☐	☐
5. Explosives	☐	☐	☐	☐
6. Disposal of Excess Spoil, Fills, Benches	☐	☐	☐	☐
7. Coal Mine Waste, Refuse Piles, Impoundments	☐	☐	☐	☐
8. Noncoal Waste	☐	☐	☐	☐
9. Protection of Fish, Wildlife and Related Environmental Issues	☐	☐	☐	☐
10. Slides and Other Damage	☐	☐	☐	☐
11. Contemporaneous Reclamation	☐	☐	☐	☐
12. Backfilling And Grading	☐	☐	☐	☐
13. Revegetation	☐	☐	☐	☐
14. Subsidence Control	☐	☐	☐	☐
15. Cessation of Operations	☐	☐	☐	☐
16.a Roads: Construction, Maintenance, Surfacing	☐	☐	☐	☐
16.b Roads: Drainage Controls	☐	☐	☐	☐
17. Other Transportation Facilities	☐	☐	☐	☐
18. Support Facilities, Utility Installations	☐	☐	☑	☐
19. AVS Check	☐	☑	☐	☐
20. Air Quality Permit	☐	☐	☐	☐
21. Bonding and Insurance	☐	☐	☐	☐
22. Other	☐	☐	☐	☐

1. Permits, Change, Transfer, Renewal, Sale

Canyon Fuel Company, LLC is owned 65% by Arch Western Resources, LLC and 35% by Itochu Coal International Inc, all are Delaware Corporations. Itochu Coal International Inc is wholly owned by Itochu Corporation of Japan. Arch Western Resources, LLC is owned 99% by Arch Western Acquisition corporation that is in turn wholly owned by Arch Coal, Inc all Delaware Corporations.

During the field visit, Ms Miller passed along a news release from Arch Coal, Inc. indicating that Arch Coal, Inc will buy Itochu Corporation's 35% interest in Canyon Fuel Company. Management of Canyon Fuels' Utah operations will be integrated with that of the West Elk mine in Colorado.

18. Support Facilities, Utility Installations

All sites are on private land owned by the Thayn Family Trust. The landowner has been actively participating in the construction of the sites. Exploration hole DUG 0104 (Task 1916) was being drilled on the day of the field visit. We did not go to site DUG0104 because it is located in a narrow roadway with limited room to manuever. Ms. Miller indicated that a tank was being used for a "mud pit" at DUG 0104, where a shale layer was encountered at 34 inches.

The first site we visited was the proposed site for exploration hole DUG0204 (Task 1916, located at a wide bend in the road going up to the Plateau from Pace Canyon. The outslope of the road had been previously disturbed by logging and will be seeded gratuitously by the Permittee. This site has not yet been disturbed by the Permittee for drilling.

The first developed degas well site encountered along the canyon road was degas site G3, developed in late November 2003. The degassification pump operated for only one month at G3. The G3 site disturbance is less than the 0.97 acres described and required no access road. Topsoil was removed down to the subsoil, based upon color. An estimated depth of topsoil was 12 inches). The topsoil stockpile is approximately 52 ft X 75ft with 5 ft slope on the upper side and a 15 ft slope on the down hill side. The Division calculates this to be approximately 1,500 cu yds of topsoil. The stockpile is protected with a berm (also formed of topsoil, but not included in the above calculation). Some grasses were emerging on the stockpile. Indigenous (not seeded) lupines are very successful at this site and are growing on the berm surrounding the site and in the compacted soil of the pad.

The next site encountered along the Pace canyon road was the developed degas well G2 (Task 1916). The site occupies slightly less than the projected 1.2 acres. A very large topsoil stockpile has been surveyed. The average depth of salvage for the site was proposed to be 30 inches. The volume salvaged will be provided to the Division by Ms. Miller. Berms around this site are all topsoil as well.

The next site to be encountered was undeveloped degas site G4 (Task 1943). This site is on the Pace canyon road with very steep side 40% slopes on either side of the road, up and down. There will be considerable grading down to the road at this site to make road and pad accessible to the drill rig. There is a small area of gentle slope, disturbed by logging that will be used to form the drill pad. The area disturbed by logging has been infested with the hounds tongue weed. The possibility of removing the weed before soil salvage was discussed, but the likelihood of there being plenty of seed already in the soil seemed to outweigh the effort required to remove the growing plants. The average 24 - 36 inch deep topsoil layer will be salvaged and stockpiled nearby. Ms. Miller mentioned that the salvage of so much topsoil would require a large storage space, impacting greater area. We agreed that to reduce the disturbed area, a balance could be achieved whereby the minimumm volume of topsoil salvaged from the site should cover the disturbed area to a depth of 18 inches upon reclamation. Ms. Miller indicated that site G4 may never be developed.

The next site encountered was undeveloped site G6 (Task 1943) which is located in a previous drill pad in order to prevent additional disturbance. The drill site is very large with grubbed vegetation stacked here and there. The disturbed area is estimated at 0.75 acres. Twelve inches of "topsoil" will be removed from the disturbed site with topsoil about 6 inches deep to be collected from the slope expansion area. Ms. Miller identified the topsoil storage location for the site. Adjacent to the site many living aspen trees had recently been toppled. The aspens were in a grove of pines that were still standing. We puzzled over this occurrence.

The next site to be encountered on the canyon road was undeveloped site G5 (Task 1943). This site will require development of a 200 ft access road. The site is on a 30% slope covered with Douglas fir, snowberry,sagebrush, lupine, rocky mtn penstamen, sego lilly, yarrow, dandelion, and various grasses. Recoverable soil was estimated at an average of 22 inches (there is a pocket of 50 inch deep topsoil and areas of 9 inch depth). The disturbed area will be approximately 1.2 acres.